Keystone Competition

Competition News in Pennsylvania

A newsletter published by the Pennsylvania Public Utility Commission regarding competition in the telecommunications and energy markets.

Spring 2004

POLR Holds Roundtables

The Provider of Last Resort (POLR) Roundtable met over the course of April, May and June, and received input from many interested parties. On April 8, the Commission heard from representatives of the Federal Energy Regulatory Commission, PJM Interconnection, the Maryland Public Service Commission, the New Jersey Board of Public Utilities and the Center for Advancement of Energy Markets. The representatives from the two state commissions offered useful insight into their POLR models, while FERC and PJM provided helpful advice on the interaction between retail and wholesale electricity markets, with special emphasis on the interplay between any POLR regulations and PJM's market design and tariff.

Electric distribution companies (EDC) offered their views at the April 21 meeting. Presentations were made by the Energy Association of Pennsylvania, Allegheny Power, Citizens' Electric Company, Duquesne Light Company, the FirstEnergy Companies, PECO Energy Company, PPL Electric Utilities Company, UGI Utilities Inc. – Electric Division, and Wellsboro Electric Company. The EDCs unanimously agreed that the incumbent EDC, and not an alternative supplier, should act as the POLR for non-shopping customers. There was no consensus on the POLR model to be used though.

Retail electric suppliers provided input at the May 3 meeting. Participants included the National Energy Marketers Association, Centrica, Constellation Energy Group, Dominion Retail Inc., FirstEnergy Solutions Corp., Strategic Energy LTD and the PA Consulting Group. The retail suppliers emphasized that POLR rates should reflect market prices. The Commission was also

POLR Roundtables *Continued on Page 14.*

New Changes for Telco Interconnection Agreement Filing Procedures

The Public Utility Commission (PUC) entered a final order at Docket No. M-00960799 on May 3, 2004, regarding modifications to the filing and review of interconnection agreements between telecommunications carriers. These modifications reflect changes to the original guidelines adopted by previous orders entered June 3 and Sept. 9, 1996, in the matter related to Implementation of the Telecommunications Act of 1996. In the implementation orders, the PUC addressed, *inter alia*, the negotiations, arbitration and adjudication phases associated with interconnection agreements.

The final order makes three important changes to the original 1996 guidelines. First, the final order directs that incumbent local exchange carriers (ILECs) maintain a log of the date on which a carrier requests interconnection ("Day 1 request") and any changess to that date. This information does not

Interconnection Agreements *Continued on Page 6.*

Competition in Pennsylvania

Welcome to the fourth issue of Keystone Competition, a quarterly publication of the Pennsylvania Public Utility Commission (PUC) that gives a "snapshot" view of the energy and telecommunications competitive markets and the major issues that affect each industry.

In addition to showing aggregated basic market data, this publication summarizes key Commission decisions affecting competition and discusses legislative activities at the federal and state levels. Additionally, it highlights notable developments at federal agencies, as well as state and federal courts.

The PUC ensures safe, reliable and reasonably priced electric, natural gas, water, telephone and transportation service for Pennsylvania consumers, by regulating public utilities and by serving as responsible stewards of competition. Industry monitoring is a crucial part of this mission.

ON THE INSIDE

Electric Utilities and PJM Briefed PUC on Summer Reliability

Pennsylvania's electricity providers and PJM Interconnection briefed the PUC on their plans to meet the demand for electricity throughout the state during summer 2004, particularly at peak times.

The meeting was held on Thursday, May 27, at the Commonwealth Keystone Building in Harrisburg. The meeting was open to the public.

Speakers at the meeting included:

- Tom Falin, Manager, Capacity Adequacy, PJM Interconnection;
- Douglas L. Biden, President, Electric Power Supply Association;
- J. Michael Love, President and CEO, Energy Association of Pennsylvania;
- Mark Fraley, Director of Conversion Economics, FirstEnergy; and
- John Rosser, Manager, Transmission Business, Duquesne Light Company.

Topics that were covered included scheduled capacity; projected peak demand and capacity; operating reserve; unavailable capacity; forced outages; assistance from neighboring systems; planned generation additions; demand side response programs; and transmission and distribution reliability.

The Commission also plans to tie this meeting into a summer public awareness campaign related to safety tips for energy customers during heat waves.

PA Sustainable Board

The Pennsylvania Sustainable Energy Board will hold its annual meeting, which is open to the public, on June 29 at 10 a.m. at the Commonwealth Keystone Building in Harrisburg. Regional sustainable energy boards will provide updates on the projects they have funded to promote the development of renewable and clean energy technologies. Consisting of representatives of the regional funds, the PUC, the Department of Environmental Protection, the Department of Community and Economic Development, the Office of Consumer Advocate and the Pennsylvania Environmental Council, the Board assists the regional boards in collaborating on projects and keeping interested parties apprised of their activities.

Electric Reliability Standards

On May 7, 2004, the Commission adopted two orders: a final benchmark and standards order (Docket No. M-00991220) designed to tighten the reliability standards for electric distribution companies (EDCs) operating in Pennsylvania, and a final rulemaking order (Docket No. L-00030161) intended to add to reporting requirements and improve the PUC's oversight and monitoring of the EDCs operating within the state. Additionally, the Commission reviewed its regulations qualifying an interruption as a major event and the process for filing formal requests for waivers of the requirements to submit reliability data for any reporting period.

The Electricity Generation Customer Choice and Competition Act established standards and procedures to create direct access by retail customers to the competitive market for the generation of electricity, while maintaining the safety and reliability of the electric system. Specifically, the Commission is required to ensure that levels of reliability that were present prior to the restructuring of the electric utility industry would continue in the new competitive markets (66 Pa. C.S. §2802(12)).

The Commission's prior benchmarks and standards were established on Dec. 16, 1999, at M-00991220, pursuant to 52 Pa. Code §57.194(h). At that time, the PUC established performance benchmarks based upon average performance prior to competition (1994-98) and allowed a two-standard deviation away from the benchmark as the minimum performance before enforcement would take place. However, in June 2002, the Legislative Budget and Finance Committee issued a report entitled *Assessing the Reliability of Pennsylvania's Electric Transmission and Distribution Systems.* The report, in part, concluded that the two-standard deviation minimum performance standard should be tightened as it does not assure that reliability performance will be maintained at levels experienced prior to the Act.

By the recent benchmark order, the PUC tightened reliability indices' standards from a two-standard deviation standard to a 120 percent times benchmark standard for the six large EDCs and 135 percent times benchmark for the four small EDCs using data over a rolling 12-month period. Additionally, a longer-term standard of 110 percent times benchmark over a rolling three-year period was established for the large EDCs and 115 percent times benchmark over a rolling three-year period was established for the small EDCs respectively.

Through its rulemaking order, the Commission is requiring EDCs to report additional information on a quarterly and annual basis as opposed to just an annual basis as before. This more frequent monitoring will better inform the Commission of violations and will lead to fixing interruption problems in a more timely fashion.

Additionally, upon Motion of Chairman Terrance J. Fitzpatrick, the Commission unanimously voted to issue an advance notice of proposed rulemaking to determine whether it should adopt specific inspection and maintenance standards, and if so, what types of standards would be appropriate. Citing new information arising from the blackout in August 2003 and a recent report issued by the Federal Energy Regulatory Commission on utility vegetation management practices, the Commission concluded that previous decisions to forego the adoption of such standards should be revisited.

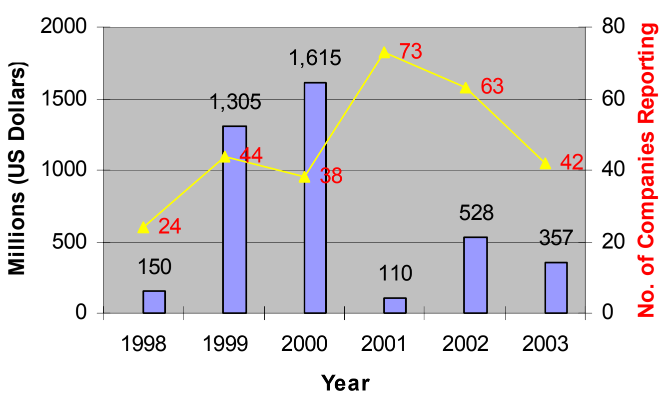
Demand Side Response Developments

Demand Side Response (DSR) initiatives continued to advance at both the state and regional level during early 2004. The Commission's DSR Working Group laid the foundation for a staff report to the Commission during summer 2004, while the PJM Interconnection sought the renewal of already existing DSR programs.

The DSR Working Group separated into smaller subgroups in February 2004, to address four areas that needed further exploration: Technology Deployment and Costs; Cost Recovery Mechanisms; Consumer Surveys; and Benefits of DSR. These subgroups met several times over a few months and gathered relevant information. Commission staff is compiling the information into reports that will be discussed by the DSR Working Group and then form the basis for staff recommendations that will be submitted to the Commission in summer 2004.

At the regional level, PJM asked its membership to renew its Economic and Emergency DSR programs through Dec. 31, 2007. These programs had been implemented in summer 2002, and were set to expire on Dec. 1, 2004. PJM members voted unanimously to recommend the renewal of these programs at the Electricity Markets Committee meeting of April 15, 2004. Stakeholders also agreed to examine ways in which DSR could be better integrated into wholesale energy markets. Participants have a menu of options including emergency, real-time economic and day-ahead economic programs. Detailed information about these programs is available at PJM's website: www.pjm.com/services/demand-response/demand-response.html.

Total Annual Revenues for Electric Generation Suppliers



The electric competition pilot year was 1998. Data for the number of companies reporting for 2003 represents approximately 72 percent of the total number of reports anticipated.

FirstEnergy Reliability Investigation

By investigation order entered Jan. 16, 2004, at Docket No. I-00040102, the Commission directed its Law Bureau to participate in a formal investigation examining the level of service reliability provided by FirstEnergy that includes Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company.

The investigation focuses on whether the service reliability of any of the FirstEnergy companies has fallen below the level of service reliability that existed prior to restructuring. The investigation was assigned to Administrative Law Judge Larry Gesoff, who conducted hearings on the matter and will issue a recommended decision by Sept. 30, 2004. If FirstEnergy's service reliability is found to have deteriorated, Judge Gesoff will take evidence on recommendations for corrective action.

Public input hearings regarding FirstEnergy's service reliability were held from April 6 to 15, 2004, in Dillsburg, York, Lebanon, Reading, Easton, Clark, Erie, Dubois and Altoona. The PUC's Law Bureau, the Office of Consumer Advocate, and the Office of Small Business Advocate served FirstEnergy with initial discovery during February, March and April. Evidentiary hearings will be held in Harrisburg on August 3, 4, 5 and 6.

Renewable Portfolio Standards Legislation

Two state legislative bills were referred to the Committee on Environmental Resources and Energy and one bill was referred to the Committee on Consumer Affairs that addresses renewable portfolio standards. House Bill 2250 was referred on Dec. 8, 2003, and House Bill 2174 was referred on Nov. 24, 2003, for the 2003 session. Senate Bill 1030 was referred on March 15, 2004, for the 2004 session.

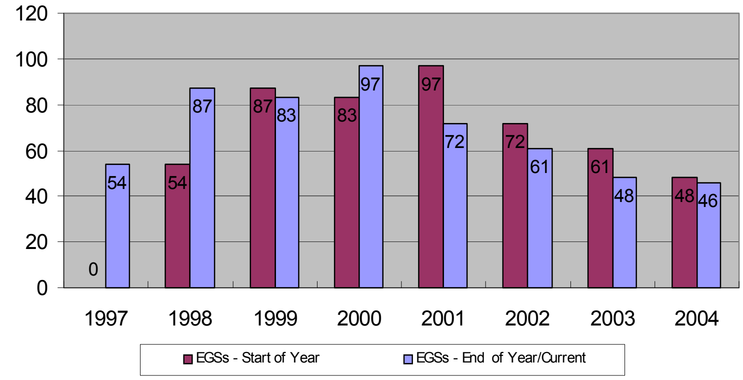
All three bills provide for the acquisition or sale of electricity energy generated from renewable and environmentally beneficial sources. The standards establish a certain amount of renewable energy be included as part of the sources of electric generation by the electric utilities within Pennsylvania. The bills differ on the timing of implementation, ranging from 10 to 15 years, with varying annual ranges for phase in periods. The Commission would acquire new powers and duties relating to utilities' acquisition, credits for trading commodities and penalties dealing with renewable energy transactions. All three bills are still in committee.

Electric Supplier Licensing

Quarterly activity from Jan. 1 to April 30, 2004.

46 Active Licenses
2 licenses canceled
0 license approved
0 applications pending

Number of Licensed EGSs



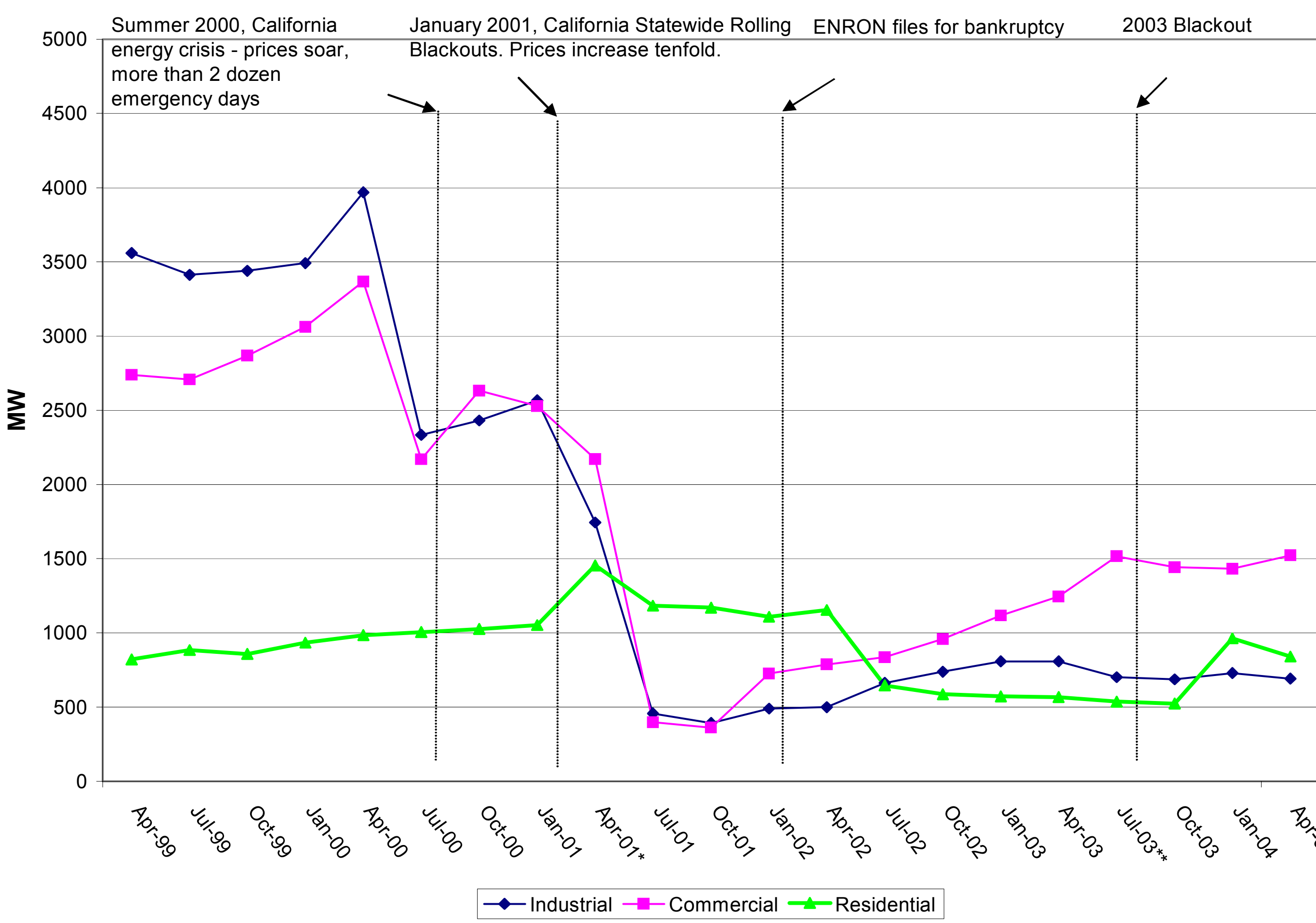
Electric Shopping has a Modest Rebound

In 1999, Pennsylvania's Electric choice program was off to a promising start. The California energy crisis, along with trading manipulation and accounting frauds, pushed many competitive electric suppliers out of business or to the edge of bankruptcy. These problems had a dampening effect on Pennsylvania's competition program. Many competitive electric generation suppliers withdrew from the Pennsylvania market and potential shopping customers became hesitant.

More recently, there has been a modest increase in electric shopping, especially among commercial customers. Residential shopping got a boost from PECO's Market Share Threshold (MST) program. It is notable that the blackout of August 2003 had no noticeable effect on electric shopping participation.

Electric Shopping Load by Customer Class

From the Office of Consumer Advocate Quarterly Reports



Joint Blackout Task Force Releases Final Report

On April 5, the United States-Canada Power System Outage Task Force issued its final report, identifying the causes of the Aug. 14, 2003, blackout that shut down 62,000 MW of generation capacity and affected 50 million people in the province of Ontario and eight states, including about 90,000 customers in Pennsylvania.

The final report concluded that four factors caused the largest electricity outage ever in North American history: inadequate system understanding by FirstEnergy and the Eastern Central Area Reliability Council; inadequate situational awareness by FirstEnergy; inadequate tree trimming by FirstEnergy; and inadequate diagnostic support by the regional transmission organizations. On the last item, the investigators noted that the Midwest Independent System Operator (MISO) lacked sufficient monitoring tools, and that joint procedures did not exist between MISO and PJM Interconnection to coordinate their efforts in responding to problems affecting their common boundaries.

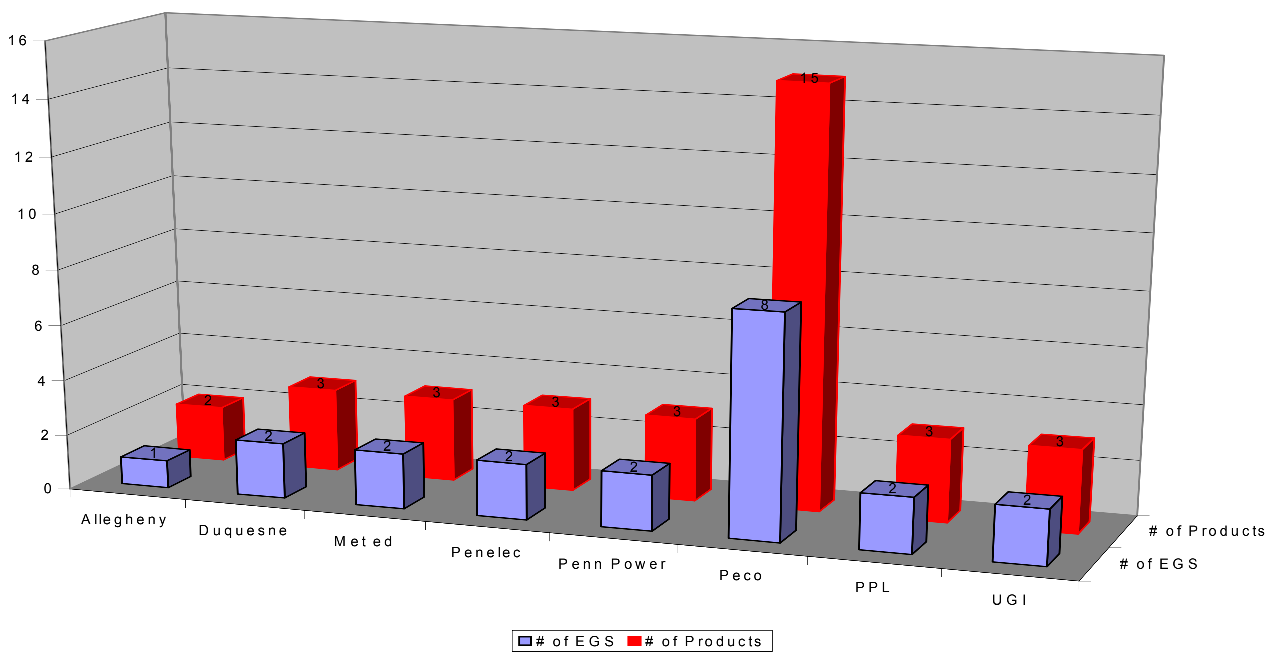
One of the Joint Task Force's primary recommendations is that the United States Congress enact federal energy legislation that includes reliability provisions, which would establish mandatory, enforceable reliability standards with penalties for noncompliance. The investigators also recommend strengthening the role of the North American Electric Reliability Council in ensuring reliability of the transmission grid. Several other recommendations focused on addressing institutional problems and improving physical and cyber security.

FERC Responds to Blackout

After release of the final blackout report by the U.S.-Canada Power System Outage Task Force on April 5, FERC adopted a policy statement on April 14, clarifying its power grid reliability policies and objectives. Responding to the task force's recommendations, FERC addressed the need to expeditiously modify the North American Electric Reliability Council's (NERC) reliability standards in order to make them clear and enforceable. FERC directed its staff to draft a memorandum of understanding defining its working relationship with NERC, especially as to their respective reliability responsibilities.

Also, FERC and the joint task force co-hosted a technical workshop on May 14 to discuss improvement of electric reliability standards and other recommendations in the final report. The workshop addressed both immediate and long-term measures that may be taken to ensure a reliable electric system.

Electric Suppliers and Products as of March 2004



As of March 2004, there are eight electric generation suppliers (EGSs) operating in overlapping territories in Pennsylvania, offering 15 energy supply products to residential customers in the state.

Renewable energy supply offerings dominate with Green Mountain serving all territories. Green Mountain offers either a 50 or 100 percent renewable option. Community Energy offers a 100 percent "New Wind Energy Renewable Add-On" option in all territories except Allegheny. Additional renewable and standard energy supply offerings are available in PECO service territory, and the suppliers include Electric America, Energy Cooperative Association, Power Choice and ACN Energy.

Interconnection Agreements

Continued from Page 1.

have to be filed with the Commission, but it must be made available upon request. Previously, the obligation to notify the Commission about the "Day 1 request" was placed upon the requesting carrier.

Second, the final order permits ILECs to individually file a petition under a cover letter requesting approval of a jointly signed "true and correct" interconnection agreement in lieu of a joint petition, as is the current practice. The agreement must be filed within 30 days after it is executed and the requesting carrier is given 30 days to notify the Commission if the agreement submitted by the ILEC was not a mutually acceptable "true and correct" copy. This change eliminates problems this PUC has with regard to obtaining a signed copy of an interconnection agreement after it was approved.

Third, the final order eliminates, except in limited circumstances, the standard ordering paragraph currently included in all interconnection agreement orders that requires a "true and correct" copy of the agreement be filed with the Commission. The ordering paragraph is no longer necessary because, as previously noted, "true and correct" copies of the agreements will now be filed concurrently with the request for approval of the interconnection agreement. In resolving this matter, the Commission also directed all ILECs to file electronic "true and correct" copies of the agreements with the Commission so that the Commission is able to make them accessible on the PUC website.

Investigation Regarding Virtual NXX Codes

Traditionally, telephone companies assigned a customer a telephone number based on the rate center in which the customer was physically located. However, virtual NXX codes now allow a customer to obtain a telephone number in a rate center in which the customer is not physically located. This type of arrangement is referred to as "virtual" because the customer assigned to the telephone number has a virtual presence in the associated rate center area, not a physical one. As far as the person calling the number is concerned, the call is a local call; nevertheless, the party answering the call is actually located outside of the local calling area of the caller. Virtual NXX codes are primarily used by competitive local exchange carriers to give their customers a wider local calling area.

Recognizing that the use of virtual NXX codes is highly controversial and might have an impact on numbering conservation efforts, the Commission initiated a generic on-the-record proceeding to further investigate virtual NXX codes. The investigation order (Docket No. I-00020093) was published on Oct. 19, 2002, at 32 *Pa.B.* 5240. In the order, the Commission requested interested parties to file comments on various issues related to virtual NXX codes, including, but not limited to, the benefits of using virtual NXX codes, the impact on telephone number conservation and local number portability, and compensation arrangements between carriers for the use of virtual NXX codes.

On Feb. 9, 2004, a PUC administrative law judge issued an investigation report to the Commission which delineated the parties' positions on virtual NXX codes. The Commission considers the report to be a valuable educational tool as it continues to consider the issue of the use of virtual NXX Codes.

By a motion of Commissioner Kim Pizzingrilli adopted at the March 4, 2004, public meeting, the Commission directed that the investigation report be made available to the public. Additionally, the Law Bureau and the Bureau of Fixed Utility Services were directed to submit a recommendation indicating whether any regulatory or policy changes should be implemented by the Commission regarding the use of virtual NXX codes.

PUC to Post Interconnection Agreements on its Website

The PUC recently entered an order on May 3, at Docket No. M 00960799, directing all incumbent local exchange companies to file electronic copies of their approved "true and correct" interconnection agreements in PDF format with the Commission. The PUC will post the electronic copies on its website at www.puc.paonline.com. This action is in response to the numerous requests this Commission has received over the years for copies of approved telephone company interconnection agreements, as well as suggestions that the approved interconnection agreement be made available electronically because of their voluminous nature.

The posting of the interconnection agreements on the PUC website will provide benefits to the public as well as to this Commission. The benefits include:

- easier access to the interconnection agreements for the public, including those carriers that desire to opt-in to existing interconnections;
- a reduced cost to the public because they will no longer have to pay copying fees to the Commission for paper copies;
- a reduced number of incoming calls to the PUC requesting copies of interconnection agreements; and
- a reduced administrative burden on the Secretary's Bureau to duplicate the voluminous copies.

Density Cell Technical Conference

The Pennsylvania Public Utility Commission has convened a technical conference (Docket No. M-00041790) to address the merits of revising Verizon Pennsylvania Inc.'s existing density cell structure and the impact that any revision to the existing structure may have on Verizon's wholesale unbundled network element (UNE) loop rates. Federal Communications Commission (FCC) regulations require that different rates be established for UNEs in at least three defined geographic areas for the express purpose of reflecting "geographic cost differences" (47 C.F.R. §51.507(f)).

In Pennsylvania, Verizon has four density cell rate zones, which were developed exclusively for setting retail dial tone line rates. However, the same four density cells and their associated parameters have also been adopted for purposes of developing Verizon's wholesale loop and port UNE rates.

It is the hope of the Commission that the technical conference will adequately address the legal and policy implications of various density cell restructuring plans for wholesale UNE rate design purposes. This may possibly lead to a configuration that would result in a more competitive environment in the most rural areas of the state where local competition is not robust.

Numbering Update

Based on revised 2002 Census Bureau data, Neustar Inc., the North American Numbering Plan Administrator, has compiled a list of rate centers to be added to the current mandatory number pools operating in Pennsylvania's nine area codes. Neustar calculates that 24 additional Pennsylvania rate centers will be required to pool numbering resources among service providers resulting in further conservation of telephone numbers. According to the revised data, the 724 area code in western Pennsylvania will have an additional 13 rate centers added to the current pool while the 814 area code will gain an additional seven rate centers. The 570 area code will add an additional three rate centers, and 484/610 will add one rate center to their number pools.

According to Neustar's implementation schedule, service providers will be required to pool numbering resources in the additional rate centers starting in September 2004. Thousands-block pooling allows NXX codes to be divided into 10 separate 1,000-number blocks that can be assigned to different telecommunications carriers.

Update on the Triennial Review Order

On June 9, 2004, the United States Solicitor General and the Federal Communications Commission (FCC) decided not to appeal a federal court decision issued in March that requires the FCC to adopt new, lawful rules for unbundled access to incumbent telephone networks. The National Association of Regulatory Utility Commissioners and competitive local exchange carriers are expected to appeal.

Court action was prompted by challenges to the FCC's *Triennial Review Order* (TRO) (18 FCC Rcd 16978 (2003)). The court's order becomes effective June 16, absent intervention by the United States Supreme Court. The effectiveness of the court's order was delayed from March to June to allow for a period of negotiation between incumbent local exchange carriers and wholesale competitors.

Industry negotiations have produced a limited number of agreements. Where agreement has not been reached, Verizon Pennsylvania and Verizon North are seeking arbitration before the Commission (P-00042092). Section 252 of the Telecommunications Act of 1996 requires negotiated and arbitrated interconnection agreements to be filed with the Commission for review and approval. Verizon PA and other "Baby Bells" have suggested an intent, however, to categorize negotiated agreements as private, commercial contracts outside the scope of Commission review. The FCC has been asked by SBC Communications Inc. to render an opinion on the necessity for state commission review (WC 04-172).

In other TRO-related proceedings, the PUC's Office of Administrative Law Judge (ALJ) is now handling the Efficient Loop Migration/Batch Hot Cut Proceeding (M-00031754). A prehearing conference is scheduled for July 15, 2004, before ALJ Marlane Chestnut.

Verizon PA's petition for reconsideration in the 90-day (I-00030100) case was granted-in-part and denied-in-part at the public meeting of May 27, 2004. The PUC clarified that TELRIC (total element long run incremental cost) pricing is not mandated for access to a Baby Bell network upon entry into the long distance market and rejected Verizon's argument that the TRO has preempted a pre-existing Pennsylvania requirement that Verizon PA provide competitors with access to the UNE-Platform for service to customers with $80,000 or less in total billed revenue.

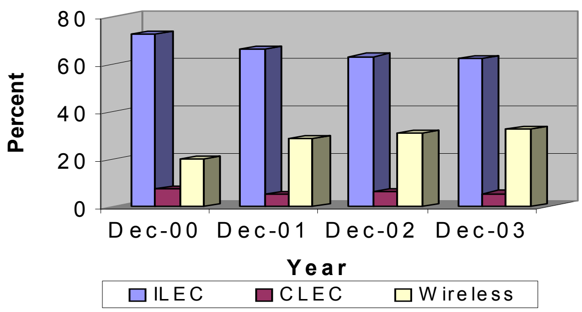
TRO Update *Continued on Page 14.*

Assigned Telephone Numbers

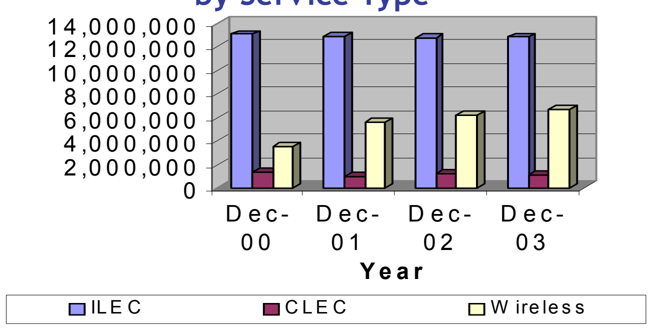
The top chart shows the total amount of assigned phone numbers to end-use customers for each carrier type - incumbent local exchange carrier (ILEC), competitive local exchange carrier (CLEC) and wireless, with the numbers expressed as a percent of statewide market share. The bottom chart shows the actual amount of total assigned telephone numbers for all three carriers.

The charts indicate that the total amount of assigned telephone numbers decreased slightly for wireline carriers (ILECS and CLECS) between 2000 and 2003, but increased significantly for wireless carriers. This data was developed from the updated Numbering Resource Utilization and Forecast (NRUF) database received from the North American Numbering Plan Administrator.

Percent of Statewide Market Share by Sector



Total Statewide Assigned Phone Numbers by Service Type



VoIP Simmers in D.C. and PA Adopts Wait & See Policy

Voice over Internet Protocol (VoIP) is a new technology that uses the Internet or Internet protocol for communication instead of the traditional telephone system.

At this time, the FCC has issued a notice of proposed rulemaking to gather input to determine if phone-to-computer or computer-to-phone VoIP is a telecommunications service or an information service under federal law. (See related article *FCC Highlights* on Page 12.)

If the FCC decides that VoIP is a telecommunications service, access charges and other long distance charges might apply and there could be state and federal regulation. If VoIP is an information service, there could be little, if any, state or federal regulation.

In Pennsylvania, the PUC adopted a "wait and see" approach to VoIP in a decision made on April 15, 2004. Pennsylvania will not decide what VoIP is until the FCC makes its decisions.

VoIP is important because revenues from local and long distance telecommunications rates help keep local telephone rates low since they help support federal and state universal service funds.

If VoIP is a telecommunications service, state and federal commissions may have authority to regulate and use VoIP for revenues just like current telephone companies.

If it is an information service, VoIP would be an interstate service. State and federal regulators might be unable to regulate or rely on VoIP as an intrastate revenue source.

Either way, VoIP is a significant technology because of its impact on consumers who use the traditional telephone system and the Internet to communicate.

Area Code Exhaustion Update

On May 1, 2004, Neustar published revised exhaust dates for all area codes in the United States based on the December 2003 Numbering Resource Utilization/Forecast (NRUF) data submitted by telecommunicatons carriers. Most of Pennsylvania's area codes have gained additional time as a result of the revised data as demonstrated to the right.

The exhaust dates and change in the time period are listed by quarters (Q).

AREA CODE	CURRENT EXHAUST DATE	NEW EXHAUST DATE	INCREASE/ DECREASE TIME PERIOD
215/267	4Q 2008	4Q 2011	+ 12 Q
412/724/848	3Q 2023	2Q 2023	- 1Q
610/484	3Q 2005	2Q 2008	+ 11Q
570	3Q 2008	3Q 2009	+ 4Q
717	4Q 2007	4Q 2008	+ 4Q
814	3Q 2007	4Q 2009	+ 9Q

PUC Kicks Off TRS Consumer Education

Commissioner Glen R. Thomas, Christy Smith, Commissioner Kim Pizzingrilli and Commissioner Wendell F. Holland kicked off the statewide "Spread the Word" TRS campaign in Harrisburg on March 27, 2004.

The PUC kicked off a statewide consumer-education campaign in March to inform the hearing public about Pennsylvania's Telecommunications Relay Service (TRS) and 711.

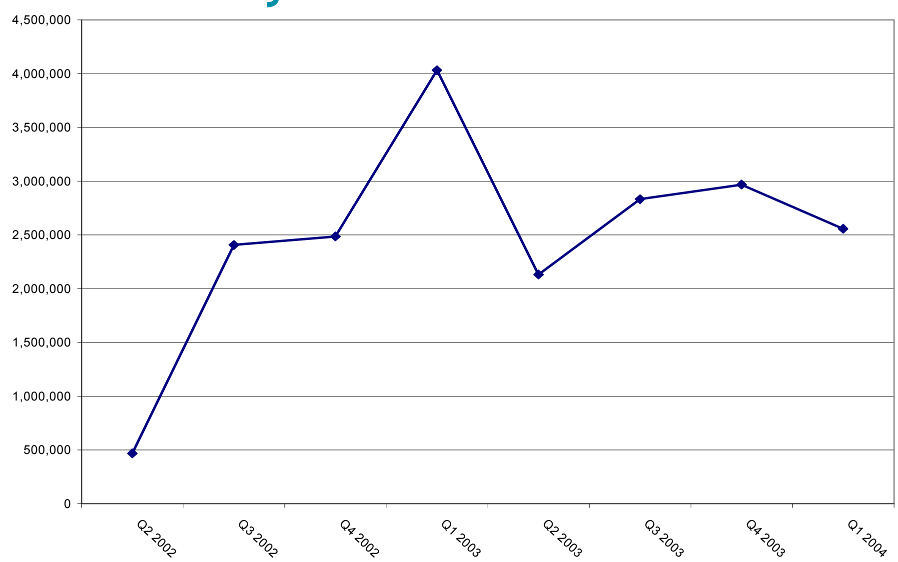
By dialing 711, hearing people and those with hearing loss and speech disabilities can communicate with each other by phone.

A recent study showed that fewer than 9 percent of hearing Pennsylvanians are aware of relay. One out of every 12 Pennsylvanians (about eight percent) is deaf, hard of hearing or speech disabled.

The campaign features: advertising; a Web site, www.PArelay.net; a toll-free phone number, 1-800-682-8706; and spokesperson Christy Smith, a finalist from TV's "Survivor: Amazon."

Nearly 20 Million Hits to the Utility Choice Website

Utility Choice Website Hits



Since its launch in June 2002, the Council for Utility Choice's website, www.utilitychoice.org, has logged nearly 20 million hits. The site features comprehensive information on how to shop for electric, natural gas and local phone service.

The site also features PA TeleChoice, a first-in-the-nation web-based shopping information guide. PA TeleChoice allows consumers to type in their area code and exchange to view and compare local telephone service providers, plans and prices. PA TeleChoice consistently ranks as the top resource that consumers visit on the website.

The chart tracks hits to the Utility Choice website since June 2002. Hits to the site tend to increase in months that also feature TV and radio advertising about local phone competition.

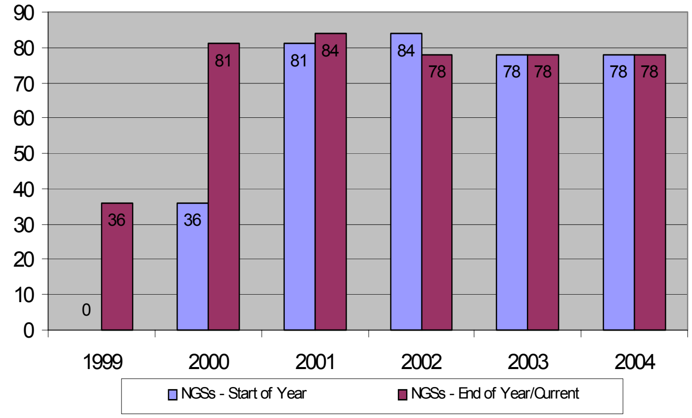
Natural Gas Supplier Licensing

Quarterly Activity from Jan. 1 to April 30, 2004.

78 Active Licenses

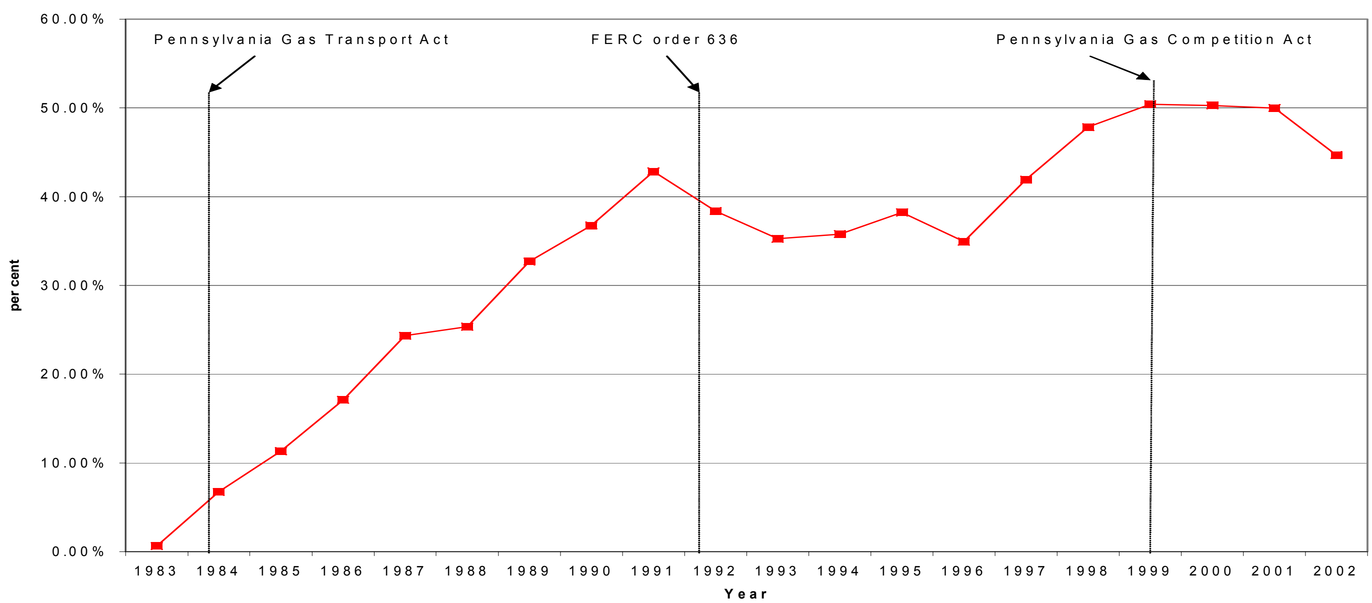
- 0 licenses canceled
- 3 licenses approved
- 4 applications pending

Number of Licensed NGSs



Percent of PA Gas Deliveries Made by Competitive Suppliers

From PUC Gas IRP Annual Reports



In the 1950s, the federal government was regulating the price of natural gas from the wellhead to the citygate. In the 1960s, gas producers' revenues could not cover the costs of production and by the 1970s the supply of natural gas could not meet the demand. The gas shortages resulted in the Natural Gas Policy Act of 1978, which began to deregulate wellhead gas prices. Gas prices began to increase so exploration and production of natural gas also increased.

The Federal Energy Regulatory Commission (FERC) in the 1980s issued a series of orders designed to allow market forces to determine gas price and to push the interstate pipelines out of the gas merchant business. FERC Order 636 (1992) provided direct access for gas producers to gas customers and required pipelines to transport the gas.

In 1983-84, the Pennsylvania PUC also allowed large industrial users to buy gas from producers, instead of from utilities. At first only the largest customers were allowed to shop for gas. Over the years the threshold limits were reduced so that small business and all industries were included. In 1999 all customers, including residential, were included by the state's Gas Competition Act.

EIA Revises Energy Price Forecast

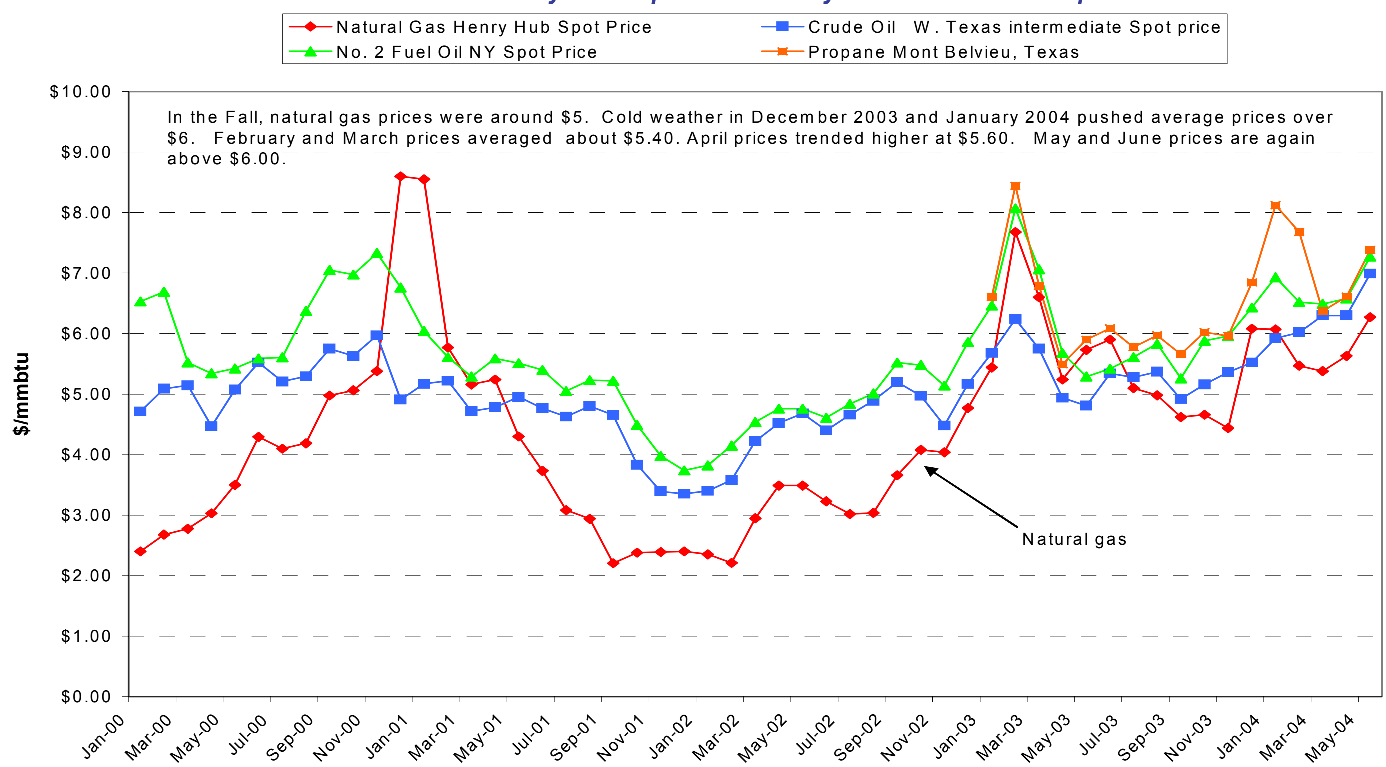
The Energy Information Agency's (EIA) June *Short Term Energy Forecast* notes that United States crude prices averaged $40.30 per barrel in May, about $3.50 per barrel above the April level and $10 per barrel above October 2003. As a result of announced OPEC production increases, the projected average U.S. price for the third quarter is now $36.20 per barrel, compared to $36.80 per barrel in the May forecast. The forecast notes that, "Potential price spikes are still quite possible given the uncertainties surrounding Middle East instability, terrorism and Iraq. While more optimism for improvement is warranted, oil inventories worldwide are still low."

Natural gas spot prices (at producing areas) are predicted to average about $6.20 per thousand cubic feet (mcf) for the rest of this year. Spot prices averaged about $5.50 per mcf in the first quarter of this year but are currently near $6. Gas in underground storage facilities at the end of May was one percent below the five-year average level, but 23 percent higher than last year at this time.

Gasoline markets remain tight and prices are likely to remain high through the summer. Week-to-week declines in the average price of regular gasoline of 1.3 cents per gallon and 1.7 cents per gallon, reported by EIA on June 1 and June 7, respectively, followed a month of increases to $2.06 per gallon in late May. Assuming that crude oil or gasoline market disruptions are avoided, the declines are expected to continue.

Wholesale Fuel Prices by Heat Content

Data from EIA's *Weekly Gas Report* and *Weekly Petroleum Status Report*



Natural Gas Investigation

Since July 1, 1999, Pennsylvania consumers have been able to secure natural gas supply service from a competitive retail market. The PUC has a duty under Section 2204(g) of the Natural Gas Choice and Competition Act to evaluate the level of competition existing in that market.

On May 27, 2004, the PUC inititated an investigation (Docket No. I-00040103) into competition in Pennsylvania's natural gas supply service market. In its order, the PUC directed natural gas distribution companies and suppliers to provide specific information related to natural gas sales, volume of gas transported and numbers of customers served since 1999. This information is to submitted no later than Aug. 27.

Also in its order, the PUC invited all interested parties to submit written testimony on other topics affecting competition, such as the price of natural gas, consumer education, service and information and supplier financial security requirements. This written testimony must be

Gas Investigation *Continued on Page 14.*

FCC Highlights

Internet Protocol

During first quarter 2004, the Federal Communications Commission (FCC) addressed Voice over Internet Protocol (VoIP) issues in three separate proceedings.

On March 10, 2004, the FCC released its Notice of Proposed Rulemaking (NPRM) at WC Docket No. 04-36 relating to services and applications making use of Internet Protocol (IP). In this NPRM, the FCC seeks comment on the following issues: 1) whether it would be appropriate to establish different categories of IP-enabled services based on certain distinguishing characteristics; 2) whether to extend the application of the FCC's ruling that a certain type of VoIP offering is an unregulated information service subject to federal jurisdiction; 3) what is the appropriate legal classification of each type of IP-enabled service; and 4) whether certain regulatory requirements such as 911, disability access, universal service, etc., should apply to each category of IP-enabled service.

In addition, the FCC requests comments on whether customer proprietary network information (CPNI) rules should be extended to subscribers of VoIP or other IP-enabled services and whether slamming requirements and truth-in-billing rules should apply to IP-enabled service providers. The FCC did not seek comments on its statement that any service provider that sends traffic to the public switched telephone network (PSTN) should be subject to similar compensation charges, regardless of whether the traffic originates on the PSTN, an IP network, or on a cable network. Comments were due May 28 and reply comments are due June 28.

AT&T's IP Service

In April 2004, at WC Docket No. 02-361, the FCC determined that AT&T's IP service, as described in its petition, is a telecommunications service requiring the payment of access charges. AT&T describes its service as an interexchange call initiated like a traditional interexchange call from a regular telephone but when the call reaches AT&T's network, AT&T converts it from its existing format into an IP format and transports it over its Internet backbone. Then AT&T converts the call back from the IP format and delivers it to the called party through local exchange carriers local business lines. The FCC emphasized that its decision is limited to the type of service described by AT&T, but did not determine whether AT&T or similarly situated carriers owe incumbent local exchange carriers (ILECs) retroactive payments of access charges. The FCC directed parties wishing to address claims for retroactive access charge payments to bring their claims to state and federal courts for a fact-specific determination.

Pulver.com's Free World Dialup

In February 2004, at WC Docket No. 03-45, the FCC ruled that Pulver.com's Free World Dialup (FWD) service is not subject to traditional telephone regulation. In 2003, Pulver.com petitioned the FCC to determine that FWD is neither a telecommunications service or telecommunications and, thus, not subject to telephone regulation. The FCC declared FWD to be an unregulated information service that is subject to federal jurisdiction. Pulver.com's FWD allows users of broadband Internet access services to make VoIP or other types of peer-to-peer communications directly to other FWD members, without charge.

Broadband Services

In a proceeding at ET Docket No. 04-37, the FCC, in February 2004, adopted a NPRM to change its Part 15 rules to foster broadband deployment over power lines. The technical rules change the procedures to measure the radiofrequency energy emitted by equipment used to provide broadband service over power lines and establish particularized interference mitigation requirements. These changes intend to permit the FCC to increase the availability of broadband in rural and underserved areas and enhance competition by providing another broadband alternative. Comments in this proceeding were due in May.

Congressional Energy Bill Still Stalled -- Passage Doubtful

While the Senate Energy and Natural Resources Committee held hearings in late February to receive testimony about the Aug. 14, 2003, power outage event, there appears little movement towards final passage of the comprehensive national energy bill, S. 14, that was debated extensively last year without passage. Some energy tax credits and incentives were stripped out of the bill and passed in the Senate on May 11, 2004. Yet, opposition in the House to a less-than-comprehensive energy bill continues, and there has been little apparent change in opposition to key sections of S. 14.

The Federal Energy Regulatory Commission (FERC) is already moving to assert its jurisdiction to improve transmission grid reliability in anticipation that the bill's grid reliability title will not pass this year. FERC has initiated several actions that would increase its oversight over vegetation management in transmission line right of ways (a key issue in the findings of the international commission that studied the August blackout), as well as improving the North American Electric Reliability Council's ability to prescribe useful transmission reliability standards and make such standards enforceable.

FERC ALJ Issues Initial Decision in AEP Case

Kentucky Settlement Proposed

On March 9, 2004, Federal Energy Regulatory Commission (FERC) Administrative Law Judge William Cowan issued an initial decision in a matter concerning The New PJM Companies, et al, Docket No. ER03-262-009, finding that FERC should utilize its authority under Section 205 of the Public Utility Regulatory Policies Act of 1978 to exempt midwest transmission owner American Electric Power Company (AEP) from Kentucky and Virginia laws which were preventing AEP from joining PJM. AEP had previously committed to joining a regional transmission organization as a condition of merger approval with Central South West Corporation.

The FERC ALJ's 105-page opinion considered and rejected the arguments of the Virginia State Corporation Commission and Kentucky Public Service Commission, urging that FERC not intervene. Our Commission is an active party in the case, asking that FERC end the delay in integrating AEP into PJM's Western markets as AEP owns key transmission facilities in the region which are blocking economic generation transactions which would benefit the entire region.

Exceptions and reply exceptions have been filed by the parties and the matter is now pending final FERC action.

On April 23, 2004, a joint motion was filed by PJM, AEP and the Kentucky Commission seeking a delay in final action as to Kentucky only, so that a proposed settlement could be approved by the Kentucky Commission which would enable AEP to transfer its Kentucky facilities to the control of PJM. On May 18, 2004, the Kentucky Commission approved a joint stipulation between AEP, the Kentucky Attorney General, Kentucky Industrials and AEP proposing to settle remaining legal issues that were a barrier to AEP integration into PJM. A filing by Kentucky with FERC to request that they be dismissed from the FERC AEP case is expected shortly.

Similarly, the Commonwealth of Virginia recently advised FERC that it might support AEP's participation in PJM. Virginia state officials asked FERC to delay any action until after a hearin on July 27, before the Virginia Commission.

Feedback

We welcome any feedback on Pennsylvania Public Utility Commission's quarterly newsletter, *Keystone Competition.*

For media inquiries or to share ideas, feel free to contact Cyndi Page of the Communications Office at (717) 787-5722.

FERC Reexamining Creditworthiness Standards

On May 28, the Federal Energy Regulatory Commission (FERC) announced the scheduling of a technical conference (AD04-8-000) on July 13 to consider whether it should institute a generic rulemaking on credit-related issues for transmission service. FERC explained that although credit policies of regulated utilities have always been a component of its regulatory agenda, recent changes in the industry and the types of market participants have raised the significance of these issues. Suggesting that there may be a lack of transparency in the creditworthiness requirements imposed by transmission providers, FERC noted that the credit policies may frequently differ or be unclear to customers.

Noting that higher than necessary credit requirements may exacerbate the financial strain on market participants, FERC seeks comments on whether to standardize tariff provisions similar to the approach it has used in developing proposed standards for the natural gas industry. In addition, FERC questions whether credit requirements are harming market development, whether there should be regional variations in credit policies and if the identity of the transmission customer makes a difference, such as if a load serving entity that is a provider of last resort should be treated differently. Comments are due June 25.

FERC Seeks to Prevent Undue Discrimination by Providers

On April 14, the Federal Energy Regulatory Commission (FERC) clarified the standards of conduct, previously adopted in November 2003, governing the relationship between transmission providers and their energy affiliates. The primary goal of these standards is to prevent undue discrimination by transmission providers against other market participants.

FERC recognized that economic incentives in the competitive market might tempt a transmission provider to give its affiliates unduly preferential treatment and that rules are necessary to protect customers from being harmed by such behavior. The new rules, which focus on the sharing of information and employees between transmission providers and their energy affiliates, will go into effect on Sept. 1.

Gas Investigation

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filed with the PUC no later than Aug. 27, 2004. The PUC will hold an *en banc* hearing on Sept. 30, 2004. On or before Sept. 10, the Commission will issue a secretarial letter addressing the procedural details for this hearing.

After the conclusion of its investigation, the PUC must report its findings to the General Assembly. If the Commission concludes that effective competition does not exist, the PUC is required to reconvene the stakeholders to explore avenues, including legislative, for encouraging increased competition in the natural gas supply market.

The stakeholders include natural gas distribution companies, natural gas suppliers, and consumer representatives: the Consumer Advocate, the Small Business Advocate and others such as the Public Utility Law Project and the Industrial Intervenor Groups.

Commission Looks at Impact of Cashpoint on Consumers

Upon a motion offered by Commissioner Wendell F. Holland, the Commission voted unanimously on May 27, to initiate a proceeding that examines the impact on Pennsylvania's utility consumers and major utilities of recent activities engaged in by Cashpoint Network Services Inc. As a money transmitter, Cashpoint has operated bill payment points throughout Pennsylvania that allow consumers to pay their utility bills at local supermarkets, mini-marts, or other similar locations.

Following the failure of Cashpoint to remit certain payments to various creditors in New York, it was forced into involuntary Chapter 7 bankruptcy and lost its Pennsylvania and New York licenses to engage in the business of money transmission.

Concerned about reports of payments in the range of $20-25 million that Pennsylvania consumers may have made to Cashpoint, which were never submitted to the utilities, the Commission opened a proceeding (Docket No. M-00041805) to gather critical information, including the number of customers and total payments that have been affected. In addition, the Commission seeks to determine what steps utilities have taken to educate customers about vendors authorized to accept payments.

POLR Roundtables

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asked to consider allowing alternative suppliers to serve as the POLR via a competitive bidding process.

Wholesale electric suppliers testified on May 19. Representatives from Green Mountain, Constellation Power Source, Calpine Corporation, PPL EnergyPlus, DTE Energy Trading, Morgan Stanley Capital Group, Select Energy, Reliant Resources, Amerada Hess Corporation, PSEG and Exelon were in attendance. Like retail suppliers, these parties emphasized the importance of applying market principles to POLR, but there was no consensus on which approach to take.

The Commission heard from consumer interests at the last POLR Roundtable session held on June 2. In attendance were representatives from the Pennsylvania AFL-CIO Utility Caucus, Citizens for Pennsylvania's Future, the Pennsylvania Utility Law Project, the NRG Energy Center, KLE Management Group, SMC Business Councils and the Industrial Energy Consumers of Pennsylvania. Presenters also included Sonny Popowsky, Pennsylvania's Consumer Advocate, and William Lloyd, Pennsylvania's Small Business Advocate. These participants emphasized that consumers would best be served by a POLR process that resulted in a reliable, low cost generation service. The Commission was also encouraged to keep its options open given the likely changes in the wholesale energy markets in the coming years.

The POLR Roundtable was established on March 4, 2004, in order to provide a forum to discuss the many issues relating to provider of last resort service. The Commission is obligated by statute to promulgate regulations that define an EDC's obligation to customers that do not choose, or are unable to obtain, electric generation service from alternative suppliers.

TRO Update

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Finally, the Commission has directed the Office of Administrative Law Judge to prepare a "Summary of Evidence" report in the "9-Month Case" (I-0003099). Given recent developments in Washington D.C., there is a strong likelihood that the determinations to be made in this case will be made by the FCC as part of that agency's effors to craft lawful UNE rules. The Commission is considering what further action to take, if any, in light of the D.C. court decision.